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J. N. Allan, R.I.A., Secretary-Manager and Editor

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. EDITORIAL .

Domestic vs. Export Trade

Is your trade interest in the Domestic, or in the Export field? The conversion from war to peace-time commerce is being accompanied by a re-aligning of the trading nations and peoples of the world into classes of "have" and "have-not". This may appear to be a bold statement, but, very little study and investigation is necessary to realize how much truth there is in this classifying. Some verification may be apparent in mentioning the trade of the smaller world nations, that of Russia, that of the United States and then the trade of the British Empire. Although we are close to the United States, our group is essentially that of the Common Wealth of British Nations.

The flow of trade during the last year has strongly indicated that all groups are trying to establish their foreign trade to such an extent that it will, for years, remain the trade field of the country which established it first. This may be the first factor in world trade competition. "Squatter's rights" in any trade field will be highly competitive.

It is quite evident, in reading the Canadian trade statistics, that Canada is pumping a respectable amount of production into the export market. This market has been supplied from "Big Business" in Canada. With reference to manufactured products, and industrial enterprises, about 15% of that class of business provides nearly 100% of the exports in the manufactured group. In studying the effect of this business on Canadian economy, it is often underestimated.

It would be unfair to single out any one class of commodity and give a statistical comparative comment on that basis. However, due to the numerous rumours abroad concerning automobile production, any reference in this field may be taken as such. It is a general conception that about sixty per cent of the production of some cars is for the export market. The policy appears to be that, if the market is established, the supporting parts and service business is established, that market will be Canadian, in that territory as long as it is effectively maintained. At the present time, in Canada, as in many other countries, production of manufactured goods is going to export at the present neglect of the domestic market. The established market can wait, and strange as this modern world may seem, it will in all probability gladly wait. In the meantime, we are eating well even if we are short on some other things we are accustomed to call necessities.

The domestic market will probably largely turn from the present sellers' market, to a buyers' market by the end of this year 1947.

What will the export market be by the end of this year? It is already being reported that the world exchange of U.S.A. dollars is drying up. The black market prices are not so available as they were. In fact, the law of supply and demand is approaching in the world market. As the supply of EXCHANGE drys up, so will the demand. The new demand will then be

developed, to a large extent, only to a volume that can be covered by the available foreign exchange in U.S.A. or sterling funds, the world exchange of to-day.

When this occurs, the exporting industrial businesses will turn to the domestic market.

Standardization of World Market Products

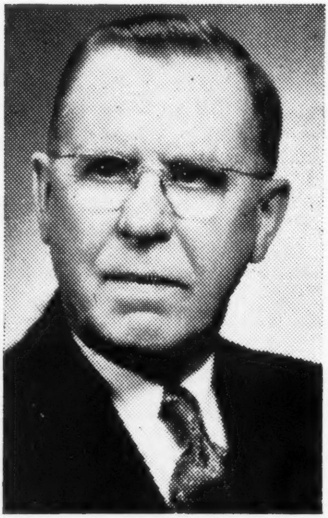
How long will it be before ordinary commodities are world standardized? Tea, coffee, gum, soft drinks and many other items are the same the world over. Since the recent war, munitions are being standardized in no small way. Sooner or later world standards will be established in other commodities and in hard goods as well as in soft goods. Measurements are the bases of items. They are different in many producing countries. A size six shoe, a six-year-old size dress or suit, a quart can, are descriptions in English-speaking countries. Other countries have other measurements. Perhaps that is fortunate and is a selling factor for British Commonwealth goods. Unfortunately even those English measurements are by no means uniform in the world market. Sizes of commodities differ as between England and Canada. In fact, in many types of business we have a mixture of English, French, United States and some other standards of measurement. This is especially true in the iron and steel field. We refer to the threads on screws, bolts and nuts, merely as a suggestion.

In past years when munitions were typed by nations, the idea was held that different standards would prevent the replacement of parts and this standard measurement variation was largely successful in accomplishing that very thing. In peace times and with the world having grown so much smaller due to air transportation and speed in communications, it is doubtful if the variation in measurement will have the effect for which it was primarily designed. This has been acknowledged in some fields but world standardization has not as yet been accepted by commerce in general. It is also a question whether similar standards in world commodities would benefit the consumer and the fabricator. Standardization is the key to volume production. If the Export trade is ready for volume absorption, standardization cannot be far behind. Some research in this matter may prove the competitive advantage in more than a few foreign fields.

Personal

Congratulations are extended to Mr. J. J. Bancroft, L.C.M.I., and Mr. L. P. Webster, both of the Montreal Chapter. Mr. Bancroft, Vice-President and General Manager of Jenkins Bros. Ltd. was elected Chairman of the Montreal Branch of the Canadian Manufacturers' Association; Mr. Webster has been appointed Secretary and Executive Assistant of Dominion Textile Co.

The Society of Industrial and Cost Accountants of Manitoba



WM. DUNBAR, President

At the initial meeting of the Society of Industrial and Cost Accountants of Manitoba the following were elected to office:

President—Wm. Dunbar, McDonald Bros. Aircraft Ltd.

First Vice-President—G. H. Elliott, Commonwealth Construction Co. Ltd.

Second Vice-President—J. H. Smith, Hudson's Bay Co. (Retail).

Secretary—R. B. Strange, District Audit Officer, M.D. 10.

Treasurer—V. C. Nix, Security Storage Co. Ltd.

Directors:

W. J. MacDonald, Millar, MacDonald & Co.

D. Sprague, Laird Sprague & Co. Ltd.

N. T. Sinclair, Canada Packers Ltd.

W. J. Porter, Marv-eon Signs Ltd.

J. M. Kirkpatrick, Moore Business Forms Western Ltd.

New Members

Eastern Townships Chapter

K. W. Scruton, Philip Carey Co. Ltd., Lennoxville.
W. H. Black, Philip Carey Co. Ltd., Lennoxville.
D. M. Campbell, Superheater Co. Ltd., Sherbrooke.

Hamilton Chapter

Melvin Norman, Lawrence Produce Ltd., Brantford.
David E. Howard, Barber Die Casting Co. Ltd., Hamilton.

Kelowna Chapter

Robert C. Gore, Public Accountant, Kelowna.

Kent County Chapter

Robert C. Green, Silverwood Dairies Ltd., Chatham.
H. E. Coupland, Silverwood Dairies Ltd., Chatham.

Kingston Chapter

Robert J. Rider, Gould Storage Battery Ltd., Kingston.

Kitchener Chapter

Ralph J. Bendus, Butler Stampings Ltd., Preston.
A. Grant Bucknell, Grok's Cooler Ltd., Preston.

REGINA
TROIS RIVIERES

New Westminster Chapter

Steve Ontko, CKNW, New Westminster.

Victoria Chapter

Frederick J. Obee, H. A. Humber Ltd., Victoria.

Non-Resident B.C. Society

Mrs. E. M. Schwarz, Canadian Canners Ltd., Ashcroft, B.C.

Non-Resident Ontario Society

Chas. R. Podger, Northern Paper Mills Ltd., Hansen, Ont.

Fernie Trophy Standings at April 30th, 1947

NEW WESTMINSTER

	Basic Points	Increase in Sen. Members	Increase in Stu't. Members	Points Inc'se.	% Inc'se.
St. Maurice Valley	32	11	5	27	84.4
Victoria	37	3	12	18	48.6
Quebec City	83	2	33	37	44.6
Kingston	56	4	15	23	41.1
Niagara	79	8	2	18	22.8
Lethbridge	27	0	6	6	22.2
Vancouver	157	8	16	32	20.4
Ottawa	78	3	8	14	17.9
Calgary	159	1	19	21	13.2
Windsor	150	7	5	19	12.7
Hamilton	288	—3	40	34	11.8
Toronto	384	9	23	41	10.7
Fort William-Port Arthur	78	0	8	8	10.3
Edmonton	131	1	10	12	9.2
(BELLEVILLE) — Bay of Quinte	36	0	1	1	2.8
Kitchener	114	2	2	2	1.8
London	110	—2	4	0	0.0
Montreal	475	—6	10	—2	—.4

(SHERBROOKE) — EASTERN TOWNSHIPS
(CHATHAM) → KENT COUNTY
KELOWNA

Chapter Notes

BAY OF QUINTE

At the May meeting, Mark Vanner, R.I.A. gave a very enlightening talk on the duties of a corporation Secretary. The qualities required were outlined—a knowledge of Corporation Law, General Accounting, Economics, and Management of Staff. The speaker was introduced by Carl Casey and thanked by Ray Lennox. The following Directors were elected for the coming year: L. Pretsell, H. Kellar, D. Duffy and E. Tummon.

EASTERN TOWNSHIPS

Mr. F. A. Rutherford, C.A., of Canadian Pacific Railways, Montreal, was the guest speaker at the May meeting of the Eastern Townships Chapter. Mr. Rutherford spoke on "Cost Accounting Methods" dealing with the three main phases, Material Labour and Manufacturing Costs. He pointed out that time spent on proper control of materials is money saved. Perpetual inventory is by far the most effective system where the size of the company makes it practicable. The control of manufacturing costs is getting results in establishing cost centres with the centre heads responsible for their own expenses. In closing his interesting talk, the speaker outlined the advantages of installing automatic accounting machines to expedite and increase efficiency of cost accounting.

Mr. Rutherford was thanked by Mr. W. Black on behalf of the Chapter.

FORT WILLIAM-PORT ARTHUR

The Annual Meeting of the Chapter was held at the Port Arthur Country Club, Chairman R. B. LeCocq presiding. The chairman gave a detailed report of the year's activities and closed with the recommendation that a membership drive be held in the fall to take advantage of the impetus that the convention is expected to give. The following directors were elected for the 1947-48 season: C. D. Henderson, R. J. Hunter, L. Stanfield, H. N. Bickmore, R. B. LeCocq, C. W. King, D. R. Harrison, F. E. Wood, S. A. Arthur, J. A. Aitken and J. H. McLellan.

While the rest of the members were shown coloured sound pictures of India by Bob Piper, the Directors elected R. B. LeCocq, as Chairman; J. A. Aitken as Vice-Chairman and L. Stanfield, Secretary-Treasurer.

KENT COUNTY

The regular April meeting of the Kent County Chapter, was held as a dinner meeting on Wednesday, April 30th at Wm. Pitt Hotel, Chatham.

The thirty members and guests present were fortunate in hearing the discussion of our guest speaker, Mr. Aleck Howey, R.I.A., past president of Ontario Society, who spoke on the all interesting topic of "What Do Our Financial Statements Portray." He brought out many points of interest dealing with government regulations past and present and upon completion of his address suggested that we as individuals must fight for our rights and made similar demands of government as they did of us dealing with time limits on financial reports.

Mr. Howey also brought greetings from the Hamilton Chapter and congratulated our Chapter on its rapid growth.

Mr. Allan, the Society's secretary-manager who accompanied and introduced Mr. Howey, spoke also of Society's growth in other provinces and our individual chapter.

After a general discussion the meeting was declared adjourned.

KINGSTON

At a recent executive meeting of the Kingston Chapter, the following officers were elected, W. G. Leonard, C.A., Chairman; G. E. Carson, Vice-Chairman; B. W. Matthews, C.A., Secretary-Treasurer. F. Dane, J. G. Hall, D. L. McKnight, and A. Taylor were named Directors.

It was agreed that of the nine forthcoming meetings, four would be supper meetings, and attempts would be made to hold some at the local industrial plants and others would take the form of debates.

LETHBRIDGE

Results of the election of officers held at the recent annual meeting were announced at the May meeting. Mr. M. Parkyn succeeds Mr. H. S. Greenway as Chairman, Mr. Jack Lakie is the new Vice-Chairman, and Mr. H. Meech, Secretary-Treasurer. D. Brownrigg, H. Greenway, A. Brown and J. Williams, C.A., were named Directors.

Chairman-elect, Mr. Parkyn, on behalf of the Chapter presented retiring Chairman, H. Greenway, with a fine desk pad and expressed the thanks and appreciation of the members for the wonderful job he has done in our first year of organization. As the film "Training of an Accountant" which was to be the feature of the evening failed to arrive from Ottawa, Jack Craine filled in with a brief talk on some of the problems of modern hotel accounting.

LONDON

Chairman, C. E. Costain presented a very interesting report of the Chapter's activities during the past year which was followed by the Treasurer's Report presented by Mr. F. N. Ware. The election of officers was next on the agenda with Mr. J. J. Masse succeeding Mr. C. E. Costain as Chairman. Mr. M. Ballantyne is the newly elected Vice-Chairman and Mr. F. N. Ware was re-elected as Secretary-Treasurer. The following Directors were also elected, L. W. Bennett, C. J. England, M. P. McBain, C. E. Costain and K. G. Quealle.

OTTAWA

After a dinner at the Tecumseh Golf Club, Gatineau Mills, the members were taken on a personally conducted tour by Mr. D. Reid through the International Fibre Board Limited Plant. Following this visit, all returned to the Golf Club where a discussion period was held, at the conclusion of which Mr. W. D. McAllister thanked Mr. Reid and his fellow workers for the courtesy extended.

The following officers were elected for the coming season: D. R. Hutton, Chairman; G. S. Olsen, Vice-Chairman and W. D. McAllister, Secretary-Treasurer. The new Board of Directors includes W. H. Henderson, A. G. Hyndman, G. S. Malloch, P. J. Nolan, J. C. Scott and C. B. Watt.

It was arranged to hold the next meeting in Perth, Ontario, visiting Jergens Limited plant

TORONTO

The Old Mill was chosen again this year as the most suitable place to hold the Annual Dinner and Dance with which the activities of the Toronto Chapter for the year 1946-47 season were concluded. The reception in the Garret Room afforded an excellent opportunity of renewing friendships, meeting other members and their ladies and becoming better acquainted. This period, so well spent, was followed by dinner served in the Lantern Room. The Chairman, Mr. H. M. MacDiarmid extended a hearty welcome to those present, especially the ladies and guests and the Dominion President, Mr. R. S. M. Ausman, who was invited to address the gathering merely took the opportunity of urging everyone to make the best of a most enjoyable evening.

VANCOUVER

"Mechanical Accounting" was the subject of the address delivered by Mr. N. Abramson to the Chapter at the last meeting held at Hotel Georgia. The speaker ably showed us by comparing the production of an office with the production of a plant or factory that we must constantly watch our procedures from raw material to finished reports to be sure that the best methods and equipment are in use if we would have efficiency and quality of product. A lively discussion period followed, after which Mr. F. G. Coburn expressed the Chapter's thanks to the speaker.

WINDSOR

The Norton-Palmer Hotel was the setting for the Annual Meeting of the Windsor Chapter held May 22, 1947. The Secretary, G. R. James read the statement of Receipts and Disbursements for the year after which Chairman, Jack Copland, made a short address thanking the other members of the retiring Board of Directors and Committee Chairmen for their help and co-operation during the year. The ballots for the Board of Directors for the 1947-48 season were cast and C. E. Baxter and J. G. Doerr, scrutineers, tabulated the vote while Mr. Demers of General Motors showed the members several moving pictures.

The following Directors were elected: G. Appleby, F. R. Bear, G. G. Carter, O. W. Fox, W. H. Gatfield, E. R. Hutchinson, G. R. James and R. G. Millin. The General Meeting was adjourned after the newly elected directors held a meeting.

Current Literature Digest

By HAROLD BRICKER, C.G.A., R.I.A.

The Chartered Accountant of Australia, has a New York Correspondent who reviews American conditions for the benefit of Australians. Among the interesting comments there is one of general interest.

We used to think of professional people, small business men, white collar workers, farmers who own their own farms; in short, everyone who does not work for wages for a large corporation or who is not a member of an organized mechanical trade, as members of the MIDDLE CLASS.

We used to think that the interests of agricultural labourers were one with those of mechanics. These things are no longer true. In an economic sense there is no middle class in this (U.S.A.) country. Large real incomes and the accumulation of large fortunes are impossible because of taxation, except when accumulated by illegal means. While a few large illegal incomes may exist, the taxing authorities are becoming more and more expert in their detection, since the non-payment of taxes is generally discovered after only a few years.

Few men expect to save enough from income for retirement. Pension plans partially take the place of this, as does social security in the lower income levels. No new fortunes can be accumulated or created and large fortunes can be maintained only for a time.

These conditions, where barely enough income is left by the tax collector to provide for current subsistence, create a singularly sensitive economy. This condition makes an unbalance of incomes between groups give way to damaging effects very quickly. At the present time organized labour is enjoying a compensation around twice that of unorganized labour.

Many organized trades, e.g., miners, printers, maritime workers, and the building trades, if they wish to work, can receive incomes of $50., $75. to $100. per week. Clerical employees and agricultural labourers can earn only about half as much. Many a school teacher, physician, lawyer, accountant or engineer is earning less than the miner, a photo-engraver or a plasterer.

This trend of labour demands is making a condition, economically, where they themselves, as well as others, cannot afford to buy the CAR or HOME that labour, at that price, is building.

Many inventories are accumulated and for petty excuses are being held for higher prices. If these products are put on the market at the true and reasonable prices at which they were produced, in relation to labour and material, they will be almost immediately purchased. But, further production at higher prices forced by wage increases, will not be SO QUICKLY ABSORBED. The downward spiral will begin and the high wages will be known by all for the illusion that they are. Every ACCOUNTANT signing a year end statement must think of these things when he is passing on the value of INVENTORY.

WHAT WAS THE PROFIT FIGURE;—PROFIT MEASUREMENT?

Under this heading, the Federal Accountant has republished an article on the above topic that may well be repeated here.

The correct ascertainment of profit is an important and provoking subject, for not only does it suggest an assessment of withdrawable income, but it carries with it far-reaching implications of efficiency and of institutional abilities to save and invest in operational equipment. In the busy world of to-day there is a short-term pressure of expediency which creates an atmosphere in which accountants are a little apt to take PROFIT MEASUREMENT FOR GRANTED, and to think that the accounting conventions and accounting mechanics can provide all that is necessary for the solution of the problem of what is the true operationally-earned profit of a particular business enterprise over a selected interval of time. It is no reproach to a highly practical and responsible profession to hazard the conjecture whereby different accountants were asked in turn to ascertain the profit of one particular undertaking for the particular period of time without reference to each other. We might expect that the results might not be so very dissimilar, but that they should be identical would be to hope for too much. Perhaps the truth of the matter is that THERE ARE NO ABSOLUTE ACCOUNTING STANDARDS; A FAIR MEASURE OF Profit IS NOT THE SAME FOR ALL PURPOSES. For the present, at the least, it is plain that accountants should disclose and define what they have attempted, in setting their figures of profit and loss, and they should not be drawn into claiming for their profit and loss statements more than in fact they are,—interim reports, which but reflect the division of the life of the enterprise into a more or less arbitrary time period.

WORKING PAPERS; They are still required

It cannot be assumed, now that the year end statements are completed, that the working papers may be permanently filed. It is well to remember that they may be needed for tax or insurance audit. Have them filed so that they can be produced ON DEMAND.

The Accountant's Magazine recently .published an article on Cost Investigations, in which there was an interesting comment on working papers of a government auditor, it should be of interest.

We lay great stress on the value of proper working papers, which should indicate in an orderly manner not merely the various processes by, and sources from which, figures are assembled, but also the nature of the checks applied to them, the degree of satisfaction obtained from such checks, how the figures reconcile with the other transactions of the undertaking, and in general, all the salient points raised during, or arising from, an investigation. It is laid down that the Department's own officers, in the preparation of working papers, should adopt a standard not lower than they would expect to find in a normal set of books. Working papers are invaluable, not only as a means of protection against possible future criticism of the manner in which an investigation was executed, but mainly, for the help they give in carrying out the work expeditiously and efficiently by continuously focusing attention on the matters of major importance. They are useful also for replying to supplementary matters raised after the issue of a report and in connection with any subsequent investigations into the

affairs of the undertaking. The old-fashioned method of routine checking merely by reference to a pre-determined audit programme, (which frequently failed to keep abreast of changed conditions), invariably produced results more slowly and often allowed matters of major importance to lie unobserved until near the close of the investigation or even to escape with insufficient consideration. In my experience, any time properly allocated to the preparation of informative working papers is time well spent. This is especially true if the information recorded can be as easily interpreted at any future date as it can be to-day.

COST REDUCTION. HOW IS THIS PROBLEM APPROACHED TO-DAY?

Thomas D. Foy, Supervisor of Cost Reduction, General Electric Co. has written an article, in a recent N.A.C.A. Bulletin, under the heading of "Cost Reduction". Some of the points mentioned include the following.

A program for improving a business cannot be one which jabs here and there in hit-or-miss fashion; instead, it must be an all inclusive operation designed to let some air out of the cost balloon rather than to push at one spot of a sealed bag.

Emphasis upon increased cost of production is tremendously significant because it places in its proper light the only way progress can be made,—through practical COST REDUCTION.

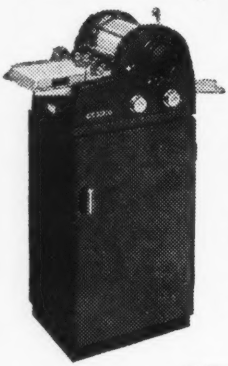
The question arises immediately,—"What can be done about it?" It takes hard work to learn the answer to this fundamental problem and the EASY WAY is to forget it. However, to your business, increased prices may mean EVENTUAL BANKRUPTCY by inviting competition;—to our nation, increased prices mean still greater inflation and may still, eventually, bring on a DEPRESSION. In short, COST REDUCTION is the KEY to CONTINUED PROSPERITY under a rising standard of living and, if this conclusion is correct, the present situation calls for IMMEDIATE ACTION.

The responsibility for the cost reduction program must be an honest organization of the individuals who have a good working knowledge of the product manufactured, the manufacturing equipment, and the production control system. This body should be based on the following essentials:

1. Capable men in the manufacturing and engineering departments spending sufficient time on this activity.
2. A group set up so that these men can work as a team.
3. Continuous education of the entire organization by the executive, technical and supervisory groups.
4. That definite objectives be established.
5. That results and progress be measured currently.
6. That the group continually stimulate the organization to better performance. The method of attack might approach the problem through;
   - (a) Getting the facts.
   - (b) Analyzing the facts and forming ideas.
   - (c) Allocating the responsibility to some individual or individuals who will see that the cost reduction action is carried through.
   - (d) Proper following-up.

   Each department must be covered in scientific and engineering care.

To all of us, in spite of all the outward forces that may make the job difficult, A CHALLENGE HAS BEEN ISSUED TO SHOW WHAT CAN BE DONE.



Published Accounts and Their Contents

By A. P. Bowsher, R.I.A., Pacific Petroleum Co., Calgary

The preparation of this paper has been prompted by the oft repeated statement that, "I cannot understand your Balance Sheet," or, "Your accountants prepare a mass of figures which nobody reads or understands."

In this paper I will attempt to set out some of the information which may be contained in a set of published accounts of a company covering two successive accounting periods, and to show the depth to which one can delve into the financial being of a Company armed only with published information and some imagination.

Let us state this matter in the form of a problem.

Given the published accounts of a Company at the close of two successive fiscal periods, set out what information you can abstract therefrom relative to the Company's operations.

We will first assume we have given the Balance Sheet the usual inspection laid down in the text books with reference to ratio of quick assets to current liabilities, of expenses to revenue, of assets to revenue, etc., etc. We have at this point received little, if any, valuable information on which to base reasonable conclusions.

Let us now examine in some detail the two sets of published financial statements (see pp. 210-219). These are copies of actual statements and set forth actual conditions.

It should be pointed out at this stage that the statements which are discussed in this paper are those of a development company engaged in the development of oil lands and, in some fortunate instances, in their subsequent operation. Accounting treatment of certain items will differ in some respects from that employed in the usual industrial undertaking.

The current or working capital position of the Company is of interest and forms the base from which we work. Any change in working capital must be reflected by a corresponding offsetting change in the other sections of the Balance Sheet.

During the year between the two sets of accounts, working capital has been increased by $150,801.87, as follows:

		Current Assets	Current Liabilities	Working Capital
February 28, 1945		120,712.51	72,452.57	48,259.94
February 28, 1946	242,317.89			
	240.66	242,558.55	43,496.74	199,061.81
Increase		121,846.04	28,955.83	150,801.87

Let us now examine the accounts to determine the source of these funds.

Analysis of the various changes in Balance Sheet figures for the period in question, from the information available from the accounts and Directors' Report, necessary to arrive at a decision as to the cause of the foregoing increase in working capital, is set out hereunder:

(Continued on p. 220)

Exhibit "A"

BLANK PETROLEUMS LTD. (Non-Personal Liability)

BALANCE SHEET AS AT FEBRUARY 28, 1945

ASSETS

Current Assets:		
Cash in Banks	22,876.83	
Accounts Receivable	52,153.07	
Due under Conditional Sales Agreement	25,000.00	
Due from Associated Companies	5,406.00	
Inventory of Supplies, as determined and certified to by the Management	12,914.36	
Prepaid Expenses	2,362.25	
		120,712.51
Investments:		
Drillers & Producers Ltd.:		
Pooled Oil Debentures, Gross Royalties, Net Preferred Royalties and Net Deferred Royalties in Wells Nos. 1, 2 and 3, at cost less reserve and amounts repaid	172,749.78	
Other Shares, Royalties and Agreements at cost less reserve	96,960.88	
		269,710.66

LIABILITIES

Current Liabilities:		
Bank Loan	25,000.00	
Accounts Payable	14,747.70	
Due to Associated Company	32,704.87	
		72,452.57
Royalite Oil Company Limited:		
Drilling Account—Contingent on Production of No. 1 Well		31,648.48
Wartime Oils Limited:		
Drilling and Equipment Account — Contingent on Production of Wells Nos. 6 and 7		293,253.02
Reserves:		
For Depreciation of Equipment	92,874.28	
For Development Expenditure	676,375.45	
For Depletion	49,013.57	
		818,263.30

Investment in Shares of Subsidiary Company, at Nominal Value		1.00
Fixed Assets:		
Leaseholds, Reservations, Option, Wells and Production Equipment at cost of acquisition (including $48,697.60 incidental to the acquisition of the assets of a subsidiary company) plus subsequent expenditures, less proceeds of sales	1,796,971.32	
General Field Equipment	42,268.59	
Automobiles and Trucks	13,825.63	
Office Furniture	5,036.44	
Buildings	665.00	
Land	144.00	
		1,858,910.98
Deferred Charges:		
Organization Expense	3,946.48	
Discount on Shares	2,500.00	
		6,446.48
Note: Investments and Accounts Receivable of a book value of $26,667.68 and $2,000.00 respectively are pledged as collateral security for a Debenture Issue of a Subsidiary Company, since paid		
		$ 2,255,781.63

Share Capital:	
Authorized:	
2,000,000 shares of $1.00 each 2,000,00.00	
Issued:	
975,005 shares of $1.00 each	975,005.00
Surplus Account (Exhibit "B")	65,159.26
	$ 2,255,781.63

Approved on behalf of the Board:

.... Director

.... Director

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the books and accounts of Blank Petroleums Ltd. (Non-Personal Liability) for the year ended February 28, 1945, and have obtained all the information and explanations we have required. We report that in our opinion the foregoing Balance Sheet is properly drawn up so as to exhibit a true and correct view of the state of the Company's affairs according to the best of our information and the explanations given to us and as shown by the books of the Company.

June 11, 1945. Chartered Accountants.

BLANK PETROLEUMS LTD. Exhibit "B"

(Non-Personal Liability)

Statement of Surplus Account for the Year Ended February 28, 1945

Balance as at February 29, 1944		82,910.90
Deduct:		
Investments written off	1,235.34	
Deficit from operations for the year ended February 28, 1945, transferred from Exhibit "C"	16,516.30	
		17,751.64
Balance February 28, 1945, Transferred to Balance Sheet (Exhibit "A")		$ 65,159.26

BLANK PETROLEUMS LTD.

(Non-Personal Liability)

Statement of Operations for the Year Ended February 28, 1945

Net Income from Well Operations		183,103.27
Income from Investments (as below)		24,017.27
Management Fees		9,000.00
Amounts repaid on Debentures and applied in Reduction of Investment (as below):		
Drillers & Producers Ltd., Pooled Oil Production Debentures	74,699.39	
Other	4,142.00	
		78,841.39
Miscellaneous		4,020.12
		298,982.05
Less:		
General and Administrative Expenses less recoveries and charges to Well Operations	12,705.27	
Geological and Consulting Fees	729.80	
Interest on Bank Loans—Net	338.03	
Directors' Fees	1,500.00	
Lease Rentals and Taxes	1,265.89	
		16,538.99
		282,443.06
Deduct:		
Allowance for Development Expenditure	194,491.56	
Unproductive Exploration Expenditure written off	1,609.14	

Transfer to Reserve for Investments (as above)	24,017.27	
Transfer to Investment Account (as above)	78,841.39	
		298,959.36
Net Deficit from Operations Transferred to Exhibit "B" ....$		**16,516.30**

DIRECTORS' ANNUAL REPORT

The Shareholders, Blank Petroleums Ltd. (N.P.L.)

Your Directors have pleasure in submitting herewith, their Seventh Annual Report, covering the operations of your Company for the year ended February 28, 1946, together with the Company's Balance Sheet as of that date, and the Auditors' Report thereon.

Production and Net Returns:

The value of the oil produced from your Company's wells during the year under review was $476,483.89.

Net cash returns from operations during the year, inclusive of capital payments received in respect of oil company shares and debentures, after providing for all expenses and taxes, but before depreciation, depletion and development allowances, amounted to $349,817.92, from which may be deducted payments made to Wartime Oils Limited and Royalite Oil Company, Limited, in reduction of contingent drilling loans, totalling $96,104.14, leaving a net accretion to the Company from operations of $253,713.78. The amounts applied by the Company in writing off unproductive development expenditure and transferred to Reserve for Development Expenditure, are detailed in the attached accounts. It will be noted that as a result of these applications, to which the Company is entitled under present income tax legislation, the Company's surplus account has been reduced during the year. The Company's investment in oil company securities continues to provide satisfactory returns, which, as in previous years, have been applied in reduction of the book value of those investments.

Fixed Assets and Investments:

The Company's Balance Sheet shows Fixed Assets of $2,080,708.26, and Investments to the book value of $173,649.30. Application of reserves for depletion, development and depreciation, totalling $986,067.87, reduces the total of these items to a net book value of $1,268,289.69. This figure includes no valuation of your Company's main asset, viz., its underground oil reserves, other than cost of acquisition of leases and the cost of purchasing and/or bring wells into production, less write-offs allowed by Income Tax authorities.

Development Operations:

During the year the Company participated to the extent of 50 per cent. in the completion of three additional wells in Turner Valley. All of these wells have proven productive and the Company's proportion of the revenue therefrom should more than offset the natural decline in production of the Company's older wells during the ensuing year.

Development operations carried out, jointly with other Companies in the Princess Field, at a cost to your Company of approximately $62,000.00, have resulted in the completion of two wells as small producers and a large gas well, the potentialities of which are as yet undetermined. The value of your Company's leasehold property in this field has increased. Further development work will be carried out in that area this year.

Exhibit "A"

BLANK PETROLEUMS LTD. (Non-Personal Liability)

BALANCE SHEET AS AT FEBRUARY 28, 1946

ASSETS

Current Assets:		
Cash in Banks and on hand	68,763.57	
Accounts Receivable	79,785.28	
Due from Associated Companies	21,589.80	
Inventory of Supplies, as determined and certified to by the Management	69,083.25	
Prepaid Expenses	3,095.99	
		242,317.89
Investments:		
Drillers & Producers Ltd.:		
Pooled Oil Production Debentures, Gross Royalties, Net Preferred Royalties and Net Preferred Royalties, in Wells Nos. 1, 2 and 3 and Common Shares, at cost less reserve and amounts repaid	102,970.93	
Other Shares, Royalties and Bonds at cost less reserve	70,678.31	
		173,649.30

LIABILITIES

Current Liabilities:		
Accounts Payable	43,385.15	
Due to Associated Company	111.59	
		43,496.74
Royalite Oil Company Limited:		
Drilling Account—Contingent on Production of No. 1 Well		31,044.34
Wartime Oils Limited:		
Drilling and Equipment Account — Contingent on Production of Wells Nos. 6 and 7		197,753.02
Reserves:		
For Depreciation of Equipment	110,862.10	
For Development Expenditure	826,192.20	
For Depletion	49,013.57	
		986,067.87

Subsidiary Company:		
Investment in Shares at Nominal Value	1.00	
Account Receivable	240.66	
		241.66
Fixed Assets:		
Leaseholds, Reservations and Options at cost of acquisition (including $49,572.60 incidental to the acquisition of the assets of a subsidiary company) plus subsequent expenditures, less proceeds of sales	611,508.10	
Development Expenditure — Well Drilling Costs	1,291,583.01	
Production Equipment	132,645.17	
General Field Equipment	20,718.75	
Automobiles and Trucks	17,850.04	
Office Furniture	5,738.19	
Buildings	665.00	
		2,080,708.26
Deferred Charges:		
Discount on Shares	49,998.00	
Organization Expense	3,946.48	
		53,944.48
		$ 2,550,861.59

Share Capital:	
Authorized:	
2,000,000 shares of $1.00 each 2,000,000.00	
Issued and Fully Paid:	
1,250,000 shares of $1.00 each	1,250,000.00
Surplus Account (Exhibit "B")	42,499.62
	$ 2,550,861.59

Approved on behalf of the Board:

.... Director

.... Director

COST AND MANAGEMENT

During the year your Company acquired a lease in the Cat Creek, Montana Field, at a very attractive price. Production of a high gravity crude oil had been found within 500 feet of the property, and was subsequently developed on lands immediately adjacent to your property on the North, South and East. The Company drilled 4 wells on sites offsetting producing wells and discontinued the drilling of a fifth well when it became known that water had encroached into the offsetting producing well. None of the wells drilled by the Company were commercially productive. Drilling costs, which at February 28, 1946, had amounted to $86,183.25, were written off to operations for the year.

Sale of Capital Stock:

In March, 1945, the Company sold 24,995 shares of its capital stock, netting the treasury $14,997.00. During the fiscal year a further 250,000 shares were sold, netting the treasury $212,500.00, and in March, 1946, an additional 50,000 shares, netting the treasury $42,500.00. The Company received a total of $269,997.00 on the above transaction. As at the date of this report there are no options or underwritings outstanding and the total issued capital is 1,300,000 shares.

Financial Position:

The general financial position of your Company has been improved during the year under review. The Company's working capital, exclusive of investments, at February 28, 1946, amounted to $199,061.81, an increase of $150,801.87 over the previous year. Its current rate of net cash returns puts your Company in a position to take advantage of opportunities for participation in development operations as they may arise, without the necessity of jeopardizing its working capital position.

Price of Oil:

Your Directors subscribe to the sentiments expressed by officials of other oil companies, with reference to the prices currently being paid for crude oil. Despite an increase of 45 cents per barrel for crude oil, effective as at January 1, 1946, your directors are of the opinion that current prices are at least 65 cents per barrel less than their value on a competitive basis, while the importation of crude oil is being subsidized by the government. The average price received by your Company for its production during the past year approximated $1.75 per barrel and with the increase effective January 1, the average price currently being obtained is approximately $2.15 per barrel, indicating a substantial increase in current net returns. There is good reason to believe that there will be a further increase in the price of oil in the near future.

Policy:

Despite the encouraging but somewhat negative results so far obtained in the Princess Field and the disappointing results in the Montana venture, your Directors are still of the opinion that the Company should continue to participate in the search for new oil reserves and are prepared, in addition to the work they propose doing this year in the Princess Field, to co-operate with other responsible companies in wildcat wells on any promising new structures.

Your Board is appreciative of the fine co-operation of the whole organization during the past year.

Respectfully submitted,

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the books and accounts of Blank Petroleums Ltd. (Non-Personal Liability) for the year ended February 28, 1946, and have obtained all the information and explanations we have required. We report that in our opinion the foregoing Balance Sheet is properly drawn up so as to exhibit a true and correct view of the state of the Company's affairs according to the best of our information and the explanations given to us and as shown by the books of the Company.

May 3, 1946. Chartered Accountants.

Exhibit "B"

BLANK PETROLEUMS LTD.

(Non-Personal Liability)

Statement of Surplus Account for the Year Ended February 28, 1946

Balance as at February 28, 1945			65,159.26
Add Net Income for the year ended February 28, 1946 (Exhibit "C")			173,943.18
			239,102.44
Deduct:			
Transfer to Reserve for Development Expenditure:			
Allowance for year, at accelerated rates	149,816.75		
Less Charged to Operations (Exhibit "C")	65,685.97		
		84,130.78	
Transfer to Reserve for Investments		17,062.83	
Unproductive Development Expenditure:			
Current year	86,183.25		
Prior years	1,490.96		
		87,593.21	
Leaseholds written off		7,816.00	
			196,602.82
Balance February 28, 1946, Transferred to Balance Sheet Exhibit "A")		**$**	42,499.62

Exhibit "C"

BLANK PETROLEUMS LTD.

Statement of Operations for the Year Ended February 28, 1946

Net Returns from Well and Servicing Operations		240,338.70
Receipts from Investments		17,062.83
Amounts repaid on Debentures and Shares, etc., and applied in Reduction of Investments (as below):		
Drillers & Producers Ltd. Pooled Oil Production Debentures	54,164.68	
Shares of Associated Companies	18,722.23	
Other	9,146.62	
		82,033.53
Cash Discounts		542.90
		339,977.96
Less:		
General and Administrative Expenses less recoveries and charges to Operations	16,396.71	
Interest on Bank Loans—Net	503.62	
Directors' Fees	1,200.00	
Lease Rentals, Taxes and Miscellaneous	214.95	
		18,315.28
		321,662.68
Deduct:		
Allowance for Development Expenditure—at normal rates	65,685.97	
Transfer to Investment Account (as above)	82,033.53	
		147,719.50
Net Income for Year, Transferred to Surplus (Exhibit "B")		**$ 173,943.18**

Notes: 1. Operating expenses include provision for depreciation of buildings and equipment amounting to $28,155.24.

2. The allowance for development expenditure, as above, together with the charges to surplus account (Exhibit "B") in respect of development expenditure are sufficent to offset any liability for Income and Excess Profits Taxes on the income for the year ended February 28, 1946.

1945	1946	Increase* Decrease†		Adjustments	Working Capital	Funds Provided	Funds Applied	
Current Assets—								
120,712.51	242,558.55	121,846.04*			121,846.04*			
Investments—								
269,710.66	173,649.30	96,061.36†				82,033.53		Capital Receipts
						17,062.83		Income
							3,035.00	Purchases
Subsidiary Company—								
1.00	1.00							
Fixed Assets—								
1,858,910.98	2,080,708.26	221,797.28*	1.	86,183.25*			875.00	re Subsidiary
			2.	10,167.42*			326,498.91	Net Increase
			3.	1,409.96*				
			4.	7,816.00*				
Deferred Charges—								
6,446.48	53,944.48	47,498.00*	5.	47,498.00†				
2,255,781.63	2,550,861.59							

Current Liabilities—							
72,452.57	43,496.74	28,955.83*			28,955.83*		
Royalite Oil Co. Ltd.—							
31,648.48	31,044.34	604.14*					
Wartime Oils Limited—							
293,253.02	197,753.02	95,500.00*					96,104.14
Reserve for Depletion—							
92,874.28	110,862.10	17,987.82†	6.	28,155.24*			
			2.	10,167.42†			
Reserve for Development—							
676,375.45	826,192.20	149,816.75†	7.	149,816.75*			
Reserve for Depreciation—							
49,013.57	49,013.57						
Capital—							
975,005.00	1,250,000.00	274,995.00†	5.	47,498.00*		227,497.00	
Surplus—							
65,159.26	42,499.62	22,659.64*	1.	86,183.25†			
			6.	28,155.24†			
			7.	149,816.75†			
			3.	1,409.96†			
			4.	7,816.00†		250,721.56	
2,255,781.63	2,550,861.59				150,801.87	577,314.92	426,513.05

1. Unproductive development expenditure incurred during the year and written off. This entry sets up the disbursement of funds in the appropriate section.
2. Charges to Reserve for Depreciation during the year assumed to apply on fixed assets sold or retired during the year.
3. Unproductive development expenditure of prior years written off. Credit to Fixed Assets now reversed as this is a non-fund item in the current year.
4. Leaseholds written off during year now reversed for same reasons as in (3) above.
5. Discount allowed on sale of shares. Deduct from par value of shares to show net receipts.
6. Depreciation charged to operations during year and now reversed as a non-fund item.
7. Allowance for Development Expenditure during the year now reversed as a non-fund item.

The Application of Funds Statement may then be drawn up as follows:

Funds Provided:			
Operations (Exhibit "C")	240,338.70		
Add Provision for Depreciation included therein	28,155.24		
		268,493.94	
Investments:			
Income (Exhibit "C")	17,062.83		
Capital Payments (Exhibit "C")	82,033.53		
		99,096.36	
Miscellaneous Income (Exhibit "C")		542.90	
		368,133.20	
Less General Expenses (Exhibit "C")		18,315.28	
Funds provided by Operations and Investments			349,817.92
Deduct Payments to Wartime Oils Limited and Royalite Oil Co. Ltd. (Directors' Report)			96,104.14
			253,713.78
Sale of Capital Stock:			
274,995 Shares (Par Value $1.00)		274,995.00	
Less Discounts Allowed		47,498.00	
(Directors' Report)			227,497.00
			481,210.78
Deduct Funds Applied:			
Purchases of Investments less Sales, if any		3,035.00	
Additional costs incidental to acquisition of Assets of Subsidiary Company		875.00	
Drilling and Development Costs and Purchases of Equipment and Leases, less Proceeds of Sales		326,498.91	
			330,408.91
Balance, being increase in Working Capital			$150,801.87

From the foregoing and as stated in the Directors' Report, we note that funds provided by operations and investments during the year amounted to $349,817.92. A proportion of the proceeds of production has obviously been devoted to the reduction of liabilities to Wartime Oils Limited and Royalite Oil Co., Ltd., leaving net funds available from operations, for corporate purposes, of $253,713.78. Additional capital financing provided the sum of $227,497.00. There was available then from all sources, the sum of $481,210.78.

We note that the funds applied to various items amounted to $330,408.91, which exceeded the amount available from operations and investments by $76,695.13. It will be observed that development work carried out in Montana was not commercially productive and that the sum of $86,183.25 was written off on that account during the year.

It may be assumed that provision made for writing off the cost of development expenditure is affected by Income Tax legislation. This is referred to in a note on the Balance Sheet and in the Directors' Report.

The Company obviously writes off on development account an amount equal to its net income each year; the taxation theory being that until an Oil Company has recovered its capital costs it makes no profit. In view of this fact what conclusion should be reached regarding the adequacy of the reserves, or need we concern ourselves with this point?

The present book value of the Company's wells and leaseholds is $1,027,885.34, made up as follows:

Leaseholds, etc	611,508.10	
Development Expenditure	1,291,583.01	
		1,903,091.11
Less Reserves:		
For Development	826,192.20	
For Depletion	49,013.57	
		875,205.77
		$ 1,027,885.34

This figure represents approximately 2.15 times the gross production from the Company's wells during the year or 4.27 times the net income from operations during the year. Taking into consideration the fact that, included in this valuation is the cost of leaseholds and development in the Princess Area, which are not yet subject to depletion, it may be assumed that the valuation is conservative and that successful developments in the Princess Field will result in the creation of secret reserves of some magnitude. The detection and size of such reserves has a considerable effect on the valuation to be placed on a Company's securities.

Investments valued at $269,710.66, at the beginning of the year have been reduced by capital payments and income totalling $99,096.36. The following summary sets out the changes in this account:

COST AND MANAGEMENT

	Balance Feb. 28, 1945	Purchases	Capital Receipts	Income	Balance Feb. 28, 1946
Drillers and Producers	172,749.78		54,164.68	15,614.17	102,970.93
Other Shares, etc.	96,960.88	* 3,035.00	27,868.85	1,448.66	70,678.37
	269,710.66	3,035.00	82,033.53	17,062.83	173,649.30

* Assumed to be "Other Shares, etc."

Oil Company securities are often of a continuing nature, that is to say, that production debentures after repayment of their principle may continue in the form of royalties. In any event, the Company has adopted the policy of reducing the book value of its investments by the amount of its income therefrom and the remaining balance is considerably less than twice the amount of the receipts therefrom during the year. This treatment and the resulting valuation would appear to be very conservative.

The ability of the Company to pay dividends is a matter of great interest to a shareholder. Dividends can be paid only upon the authority of the Directors, consequently their stated policy has a bearing on this matter. The Directors have stated that it is their intention to continue the search for oil and to continue development operations in the Princess Field.

As set out previously the amount provided by operations and investments for the year was $253,713.78. In their report the Directors state that the revenue from new wells in Turner Valley "should more than offset the natural decline in production of the Company's older wells." It may be assumed, therefore, that approximately the same amount should be made available during the coming year. A fairly comprehensive development program could be carried out in Princess, utilizing only a portion of the funds available. It would, therefore, appear possible and even probable, taking into consideration the resources of the Company, that a dividend policy could be instituted and, given favorable results at Princess, maintained or even increased.

It must be remembered that there is virtually no restriction imposed on the Company so far as paying dividends is concerned. It can create or increase a deficit on Earnings Account through the payment of dividends by virtue of its incorporation as a Specially Limited Company. This is not inconsistent with the nature of its business which is the discovering, development and exploitation of wasting assets. One of its objects is to distribute to its shareholders the income accruing through its operations.

One more step may be taken in examining these Balance Sheets—it is one not very often taken, but one which often gives an interesting interpretation of management policy. From the information available in these statements, we may redraft the Balance Sheet into an elaboration of the double account statement. This statement may be drawn as follows:

		Capital Section			
Assets:			**Liabilities:**		
Leaseholds, Wells, Equipment, etc.		2,080,708.26	Share Capital		1,250,000.00
			Capital Liabilities		228,797.36
			Fund Deficit		601,910.90
		2,080,708.26			2,080,708.26
		Reserve Section			
Assets:			**Liabilities:**		
Investments		173,650.30	Reserves		986,067.87
Funds		812,417.57			
		986,067.87			986,067.87
		Earned Surplus Section			
Deficit Account:			Fund Deficit		11,444.86
Deferred Charges	53,944.48				
Less Surplus Account	42,499.62				
		11,444.86			
		11,444.86			11,444.86
		Working Capital Section			
Assets:			**Liabilities:**		
Current Assets	242,317.89		Reserve Funds		812,417.57
Subsidy Company	240.66				
	242,558.55		Less Fund Deficits:		
			Capital Section	601,910.90	
Less Current Liabilities	43,496.74		Earned Surplus	11,444.86	
		199,061.81			613,355.76
		199,061.81			199,061.81

The conclusions which may be drawn from this contain the following:

1. Net earnings have, as mentioned previously, been appropriated as allowances for writing off development and other expenditure.
2. All funds derived from capital financing, in addition to reserves appropriated for that purpose, have been used for capital expenditure.
3. Funds representing current earnings, having been appropriated and transferred to the Reserve Section, have been used for capital expenditure to the extent of $601,910.90, have financed current operations to the extent of $11,444.86, and to the extent of $199,061.81, remain on hand in the form of Working Capital.

This is a very clear example of what is generally known as "plowing back" earnings into a business. The extent to which this policy has been carried out indicates further the conservative nature of the management and is consistent with stated policies.

The items to which I have drawn your attention are, as I have said, intended to supplement the usual procedure which is advocated as a means of appraising a business through examination of its Balance Sheet. All of the foregoing may be extracted from the Statements and Directors' Report without further reference to the Company's books, and my purpose has been to emphasize the necessity of preparing adequate and complete Financial Statements, and also to show that a wealth of information may actually be conveyed by a small summary of business transactions. Whether successful, or not, the preparation of this paper has been a source of pleasure and education to the author.

Current Trends in Cost Accounting

By F. E. GATES, C.A.

Address at the Annual Dinner of the Cost and Management Institute

I consider it a great honour to be here as your guest on the occasion of your Annual Meeting and, in my capacity as president of the Institute of Chartered Accountants of Quebec, I would like to take this opportunity to congratulate both your outgoing and incoming officers.

When I was asked to speak to you this evening, I was permitted to choose my own topic and I decided to take as my subject "Current Trends in Cost Accounting." I chose this subject because I consider that the time is opportune for those interested in cost accounting to figuratively take their bearings and set their course in the light of existing conditions.

World conditions to-day are extremely unsettled and while at the present time business is good and production is high, trading on a world-wide scale has not been re-established along lines which make it possible to forecast what the future may hold. We are in a period of rising costs and doubtful markets, that is, doubtful from the long range point of view.

I do not think that there is any doubt that even under the most favourable circumstances competition will become very keen and there will be a premium on efficiency.

Although the trend in the direction of improved international relations and the development of world trade on a large scale is obscure at the present time, we must not for any reason become cynical and thus weaken our efforts to establish better conditions.

The establishment of improved world trading conditions will not, however, lessen competition, but on the other hand will intensify it. If we believe in free enterprise with reasonable reward for risk and skill, we must be willing and ready to face competition. We must be prepared to take risks because in my opinion there is nothing more dangerous than to expect absolute security. If you remove the element of risk from the life of the individual you lower his value both from a moral and economic point of view.

You might say "What has all this to do with cost accounting?" In answer to this I would remind you of one of the objects of your Institute which is as follows: "To develop and foster in commerce and industry a wider adoption of scientific organization and cost accounting methods as an aid to management and executive control."

It seems to me that if we agree that business is competitive and must be prepared to take risks, it is also reasonable that insofar as it is possible the competition should be planned and the risks calculated. As I see it one of the principal means of accomplishing this is for the business man to have full and accurate knowledge of the cost of his product. Without this knowledge it is like steering a craft without a chart. This is when the cost accounting comes in.

In spite of considerable progress in recent years many businesses have virtually no cost system. They may have some rule of thumb method of establishing what they fondly believe are costs, but which do not bear very close examination and may, in fact, be dangerously misleading. Businesses

that have been operating cost systems over a period of years sometimes follow old-fashioned methods and may have not taken full advantage of the mechanical accounting equipment which is now available. Also where standard costs are in use they may not have been revised to properly reflect current operating conditions and increased costs.

During the war businesses engaged on war contracts were obliged to become cost conscious, but more from the standpoint of ascertaining the total cost rather than as a measure of efficiency or as a close check on the unit cost of diversified products.

I find that at the present time business men are becoming more receptive to suggestions regarding their methods of costing and there is much to be done in the cost accounting field.

The advice of cost accountants is being widely sought to-day and I think this trend will continue. Businesses that have never had what could be considered a cost system are now anxious to install them and other concerns which have had cost systems are desirous of having their systems surveyed with a view to improving their methods. The value of standard costs under appropriate circumstances is becoming more widely recognized, as also is the use of budgetary control. Consequently, the cost accountant in public practice must be able to make a thorough survey of the existing conditions and methods employed and to recommend improvements.

The functions of cost accountants in public practice may be classified as follows:

(a) Planning and installing cost systems for businesses which have not previously operated a cost system. This would include new businesses.
(b) Surveying existing systems and making recommendations for their improvement by the introduction of up-to-date methods and equipment.

It is desirable that wherever possible this work should be accomplished by directing and advising key personnel in the client's organization. In many businesses it is difficult to find within the organization persons with a sound knowledge of up-to-date cost accounting and it is necessary to embark on a training programme concurrently with the installation or revision of the cost system.

All system work sooner or later involves personnel and organizational problems and it is advisable to deal with these in the initial stages. It is useless to introduce system changes unless there is adequate and competent staff to put them into effect. Also the question of centralizing or decentralizing the accounting functions should be considered and dealt with. The present trend appears to be in the direction of decentralization with a view to providing local management with all the essential information at first hand and thus ensure the maximum co-operation between the production and accounting services in accordance with the policies established by the management.

What should be expected of a cost system? The obvious answer to this is—The production of accurate costs relating to the business it is designed to serve. There is no mystery about this, because cost accounting is primarily a refinement of classification. Reduced to its simplest terms accounting is basically the classification of receipts and assets, disbursements and liabilities in an orderly manner in order to produce financial statements which reflect the results from operations for any desired period and the financial position at the end of such period. Cost accounting is essentially

a reclassification of the expenditures for any given period so as to establish the cost of the goods produced.

Beyond this, however, a cost system should provide (a) a basis for the production of statistical statements and reports containing all the essential information in convenient and concise form; (b) a medium for establishing the maximum control possible over expenditures for materials, labour and overhead and over work in process and finished goods.

In order to achieve the best results it is essential that the cost records should be kept in continuous agreement with the general accounting records.

When dealing with cost accounting problems the following points should always be borne in mind:

(a) There is no such thing as a ready made cost system. Each system must be tailored to meet the particular requirements of the business which it is to serve. In no two plants will the conditions be found to be identical even though they may be manufacturing the same product.

(b) No cost system is static. A cost system to be fully effective must be constantly reviewed and revised to meet changing conditions and to take advantage of improved methods and accounting equipment.

(c) Production and management should not be dominated by cost and general accounting requirements. Sometimes there is an inclination to make the operations fit the cost system instead of making the cost system conform to the operating requirements. It should always be remembered that cost finding is essentially a service to management and as such should reflect in dollars the results of the application of management policy and operating techniques.

The cost accountant should not always think in terms of large industries. They are, of course, vitally important, but the small and medium size industries in the aggregate are of no less importance to our economy. Cost finding is important even in the smallest manufacturing concern, but care must be taken that the methods employed are economical, having regard to the volume of the business.

While present conditions afford great opportunities they also place responsibility upon cost accountants whether in public practice or employed in industry. It is essential that they should have a sound practical knowledge of the basic principles of cost accounting and of modern methods of putting them into effect coupled with a keen appreciation of the opportunity to be of real service which their work affords. Your Institute through the courses which it sponsors and its lectures and meetings is making a great contribution in this direction.

It seems to me that it is particularly desirable at this time that young men employed in industry should avail themselves of the opportunities afforded by your Institute and thus equip themselves to be of greater service to their employers.

As I have already mentioned, at the present time there seems to be a shortage of men with cost accounting knowledge and training. While this is partly attributable to the interruption in education and training during the war years and to the increased demands resulting from the existing high rate of production, I think another reason is that businesses have often neglected opportunities for systematically training their employees in accordance with a long range plan so that when the time comes to fill key positions they do not need to go outside of the organization. This is something that

cost accountants in public practice might well impress upon their clients.

In conclusion I wish to emphasize the important contribution that cost accountants can make to our economy.

We all hope and expect Canada to gain an increasingly important position in world trade. As I have already said trading always involves risk and if we are to be successful we must recapture some of the pioneer spirit of our forefathers.

In his recent budget speech the Minister of Finance made the following reference to the Fathers of Confederation:

> "These men of 1867 had faith in the future of the united Canada which they were then striving to build. But probably none of them ever dreamed that in eighty short years, total revenue of the Dominion could expand nearly two hundred times. We have indeed travelled a long way from the small beginnings of those days. But the same qualities which have brought us thus far can carry us to still greater heights. We are entering a most exciting period. Never before have there been such great material opportunities open to any generation. Never before have we been so conscious of the challenge presented to our economic and political abilities. Never before has our country been called to occupy a position of such high responsibility in world affairs as she does to-day. If we continue to show the courage, the unity and the spirit of co-operation which inspired the Fathers of Confederation, and which inspired our people during these last war years our achievements in the peacetime years ahead will, I am confident, be equally striking." That is the end of the quotation; it perhaps would be summed up in two words, Courage and Co-operation.

For many years now the world has been ruled largely by fear of one kind or another. One form of this phobia is the present prevailing talk of recession of business. It may be unavoidable, but it is certain that if everybody decides that there will be a recession and acts accordingly there will be one. Our friends in the United States within the last few weeks appear to have realized this and under the leadership of President Truman have embarked upon a campaign to keep prices down to reasonable levels and thus check the spiral of inflated prices which, if continued, would have disastrous results. It is hoped that as controls are relinquished in Canada every effort will be made to keep prices down and there are already some signs that the trend may be in this direction.

In this connection I would like to paraphrase the recently publicized comments of one of our leading industrialists, as follows:

The relaxation of controls does not signal the termination of the fundamental difficulties facing this country. Rather, the responsibility for carrying out the necessary readjustments is being restored to those whose actions exert a determining influence on the nation's well-being. No group has more to lose from the unwise discharge of this responsibility than industry.

Either inadequate or exorbitant profits can be detrimental to the efficiency of the capitalistic system. Therefore, every industrial company should endeavour to achieve that balance between earnings, prices and wages which will make for maximum investment, consumption and productivity. By doing so, industry will have made an important contribution towards the maintenance of employment. In other words, the Canadian business man has a tremendous responsibility.

In advocating the abolition of fear and the willingness to assume risks in the interest of expanding trade, I would suggest that one form of insurance in a progressive business is an accurate knowledge of its cost of production. It is therefore essential that those concerned with cost accounting should not miss any opportunity of introducing up-to-date and economical methods of cost finding and in so doing help to ensure Canada's future as a great trading nation.

« STUDENT SECTION »

COST ACCOUNTING

By A. VAN HARRIS, C.A.

Problem

Stretcho Limited manufactures a type of cotton belting using cotton yarn (or thread) as the raw material. The concern produces only one quality, but in two widths—30 inches and 60 inches. One yard of the 30-inch material contains 2.7 lbs. of cotton thread, while the 60-inch product contains twice as much. There is some loss in the process, to the extent that only 90% of the raw material put into the process is actually contained in the finished product. The waste material is sold.

Workers engaged in the actual manufacturing process are compensated on a piece-work basis—20c per yard for the narrow material and double that rate for the wide.

The balance sheet of the concern at 31st December 1942 was:

STRETCHO LIMITED

BALANCE SHEET

As at 31st December 1942

ASSETS

Cash at bank	$ 20,840	
Accounts receivable	35,600	
Inventories:		
Raw material—82,000 lbs. at 27c	22,140	
Finished goods—30 inch—7000 yds.	7,700	
60 inch—6000 yds.	13,200	
Factory supplies	1,800	
		$ 101,280
Plant and equipment	$ 66,600	
Less Reserve for depreciation	19,100	
		47,500
Deferred charges:		
Insurance premiums on policies expiring 30th June 1944		1,350
		$ 150,130

LIABILITIES

Accounts payable	$ 25,200	
Bank loan	15,000	
Accrued payroll	1,500	
Provision for income and excess profits taxes	5,460	
		$ 47,160
Capital stock:		
8,000 shares of $10 each	$ 80,000	
Surplus account	22,970	
		102,970
		$ 150,130

The following information is also supplied:

(1) The company has material on order for delivery as follows:

38,000 lbs. in January	@ 28c per lb.
26,000 lbs. in February	@ 29c per lb.
15,000 lbs. in March	@ 30c per lb.
24,000 lbs. in April	@ 32c per lb.
32,000 lbs. in May	@ 30c per lb.
35,000 lbs. in June	@ 31c per lb.

Invoices for material are payable in the month following delivery.

(2) Production is expected to be fairly constant at 5,000 yds. of narrow and 4,000 yds. of wide material per month. Raw material is to be charged to production on a first in first out basis.

(3) Sales are expected to be:

	Narrow	Wide
January	6,000 yds. @ $1.40	3,600 yds. @ $3.00
February	5,800 yds. @ 1.50	4,500 yds. @ 2.80
March	4,600 yds. @ 1.50	3,800 yds. @ 2.90
April	6,200 yds. @ 1.40	4,000 yds. @ 3.00
May	5,600 yds. @ 1.50	5,000 yds. @ 3.00
June	5,000 yds. @ 1.60	4,500 yds. @ 3.00

(4) Collections: 50% of the sales in any month are usually collected in the month following: 30% in the month after that and the balance in the third month. The accounts receivable at 31st December consist of December sales $22,800; the balance of November $8,400 and October $4,400.

(5) Overhead is estimated at $2,320 per month made up:

Indirect labour	$ 650.
Power, fuel, etc.	130.
Factory supplies	180.
Rent, taxes, etc.	360.
Selling and administrative expenses	1,000

Depreciation should be taken at 10% per annum.

(6) It is expected that factory supplies will be purchased as follows:

January	$100	February	Nil	March	$560
April	300	May	$100	June	Nil

(7) The accounts payable at 31st December are all due in January. The taxes will be paid by monthly instalments, the final one due in June.

Banking accommodation is restricted to $25,000 unless further arrangements are made.

(8) The waste material for the 6 months is expected to be sold for $1,070—$500 in April and $570 in June.

(9) Work in Process and income and excess profits taxes may be ignored.

(10) A dividend of 20%, i.e., $16,000, wil be paid in April.

Required: You are required to prepare budgeted statements of manufacturing, trading and profit and loss for the six months ended 30th June 1943.

Solution

STRETCHO LIMITED

Schedule A

Budget of Raw Materials Consumed for 6 Months Ended 30th June 1943

	Quantity	Unit Price	Amount
Balance Jan. 1	82,000	.27	$ 22,140.
Purchases Jan.	38,000	.28	10,640.
Feb.	26,000	.29	7,540.
Mar.	15,000	.30	4,500.
Apr.	24,000	.32	7,680.
May	32,000	.30	9,600.
June	35,000	.31	10,850.
	252,000		$ 72,950.

Production requirements:

5000 yards of narrow x 2.7 lbs.	13,500 lbs.
4000 yards of wide x 5.4 lbs.	21,600 lbs.
Total requirements of which this represents 90%	35,100 lbs.
$100\% = \frac{10}{9} \times 35{,}100 =$	39,000 lbs.
Production for 6 month=39,000 x 6 =	234,000 lbs.

Raw Materials are to be charged to production on the "first in" "first out" basis, so that of the above materials there will remain on hand at 30th June 18,000 lbs. at the June price of .31c—$5,580.

Balance used in production—234,000 @ ($72,950—$5,580)=$67,370.

Schedule B

Budget Statement of Manufacturing for the six months ended 30th June 1943

Raw Materials		
234,000 lbs. per schedule A		$ 67,370.
Direct Labour		
30,000 yards of narrow @ .20c	6,000.	
24,000 yards of wide @ .40c	9,600.	
		15,600.

Manufacturing Expense

Indirect Labour	650.		
Power, fuel, etc.	130.		
Factory Supplies	180.		
Rent, taxes, etc.	360.		
Depreciation 66,600 @ 10% per month	555.		
Insurance 1/6 of ⅓ of 1,350	75.		
Total per month		1,950.	
Total for 6 months			11,700.
			94,670.
Less scrap applied to Production costs			1,070.
Cost of Goods Manufactured			$ 93,600.

Schedule C

Budget Statement of Cost of Finished Goods for the six months ended June 30, 1943

Production:		
Narrow, 6 x 5,000	30,000 yards	
Wide 6 x 4,000 x 2	48,000 yards	
	78,000 yards	
Production Costs per schedule B	$ 93,600.	
Cost per yard (narrow)		$ 1.20
Cost per yard (wide)		$ 2.40

Schedule D

Budget Statement of Sales for the six months ended 30th June, 1943

	Narrow		Wide	
	Quantity (yds.)	Amount	Quantity (yds.)	Amount
January	6,000	$ 8,400.	3,600	$10,800.
February	5,800	8,700.	4,500	12,600.
March	4,600	6,900.	3,800	11,020.
April	6,200	8,680.	4,000	12,000.
May	5,600	8,400.	5,000	15,000.
June	5,000	8,000.	4,500	13,500.
	33,200	$49,080.	25,400	$74,920.

Schedule E

Budget Statement of Trading and Profit and Loss for the six months ended 30th June 1943

	Narrow		Wide	
	Yards	Amount	Yards	Amount
Sales per Schedule D	33,200	$49,080.	25,400	$74,920.
Cost of Sales				
Inventory 1st Jan., '43	7,000	7,700.	6,000	13,200.
Cost of Production	30,000	36,000.	24,000	57,600.
	37,000	43,700.	30,000	70,800.
Less Inventory 30th June 1943	3,800	4,560.	4,600	11,040.
	33,200	39,140.	25,400	59,760.
Gross Profit on Trading		9,940.		15,160.
				9,940.
				25,100.
Selling and Administrative Expense				6,000.
Budgeted Net Profit				$19,100.

Comments

This problem was on the second Advanced Cost Accounting paper written by candidates in May 1947. Numerous comments have been passed on to the writer regarding this problem, so to satisfy those interested the solution is now presented. It will be noted that:

(1) While the problem supplies considerable data re cash disbursements, receipts and a projected balance sheet, none of this information is required in answer to the problem. Several students in the stress of examination apparently read this into the problem, and found themselves with a very lengthy task.

(2) The requirements of the problem do not require individual monthly set-up figures for the manufacturing and trading and profit and loss statements. To build up the figures on a total basis is a considerably shorter job—as a few candidates discovered!

(3) While some of the schedules submitted above are not requested in the problem, the information must be built up to produce the correct results.

One major variation in solution should be stated. The final finished goods inventory might have been priced at average cost rather than, as has been done here, on the first-in, first-out method. Further, the amount written off the deferred charges (insurance) could be considered as a profit and loss item. A number of candidates ignored this latter item.

The most prevalent error by those who attempted the problem was to ignore the 10% shrinkage in the raw material content. This omission produced rather unfortunate results which were on occasion commented upon, but seldom traced down.